WALGREENS 2001 ANNUAL REPORT

Our Corner Walgreens

More than a century old–somehow that doesn't bring to mind the vision of an agile and fast-growing retailer like Walgreens. We're the oldest major U.S. drugstore chain… with the youngest, most innovative stores. And we lead the industry in sales, profits and store growth. We place a high value on our history as we move ahead with plans to reaffirm–every day–our position as America's most convenient and technologically advanced healthcare retailer.

Sales in 2001 reached $24.6 billion, generated by 3,520 stores in 43 states and Puerto Rico. We filled 323 million prescriptions–11 percent of the U.S. retail market and more per store than all major competitors.

Walgreens has 130,000 employees and over one-half million shareholders. Our stores serve three million customers daily and average $6.8 million in annual sales. That's $628 per square foot, among the highest in the chain drugstore industry.

Walgreens has paid dividends in every quarter since 1933 and has raised them in each of the past 25 years. Since 1980, we've had seven two-for-one stock splits. With a market capitalization of $35 billion as of August 31, 2001, Walgreens ranks third among U.S. retailers and fifth in the world.

ABOUT THE COVER

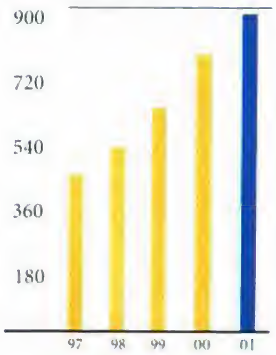
Amy Hegi and her daughter Kate, loyal Walgreen customers in Dallas, rely on employees like pharmacist Sreedhar Vasireddy in Dallas (top) and photo specialist Artayvier Miller in Atlanta (left) to provide services at convenient stores like the one in Cheyenne, Wyoming (bottom).

Financial Highlights

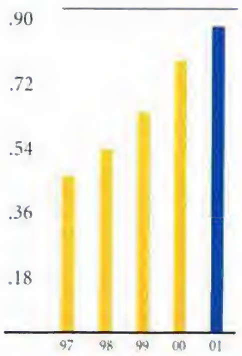
For the Years Ended August 31, 2001 and 2000

(In Millions, except per share data)	*2001*	*2000*	*Increase*
Net Sales	$24,623.0	$21,206.9	16.1%
Net Earnings	$ 885.6	$ 776.9	14.0%
Net Earnings per Common Share (diluted)	$ .86	$ .76	13.2%
Shareholders' Equity	$ 5,207.2	$ 4,234.0	23.0%
Return on Average Shareholders' Equity	18.8%	20.1%	
Closing Stock Price per Common Share	$ 34.35	$ 32.88	
Total Market Value of Common Stock	$ 35,017	$ 33,231	5.4%
Dividends Declared per Common Share	$ .14	$ .135	3.7%
Average Shares Outstanding (diluted)	1,028.9	1,019.9	

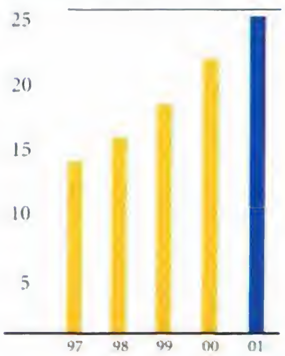
Earnings
Millions of Dollars



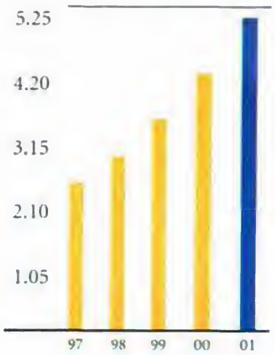
Earnings per Share (diluted)
Dollars



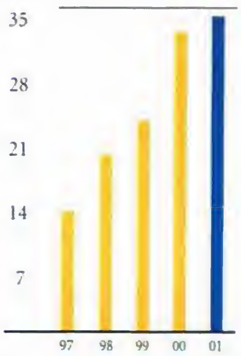
Sales
Billions of Dollars



Shareholders' Equity
Dollars per Share

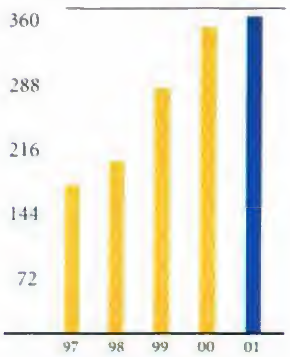


Stock Performance
*Closing Price per Share**



* *Prices are adjusted for a two-for-one stock split in 1999.*

Net Store Growth
Number of Stores



WALGREEN STOCK PERFORMANCE

10 YEARS

On August 31, 1991, 100 shares of Walgreen stock sold for $3,438. Ten years later, on August 31, 2001, those 100 shares, having split three times, were 800 shares worth $27,480, for a gain of 700 percent.

20 YEARS

On August 31, 1981, 100 shares of Walgreen stock sold for $4,438. Twenty years later, those 100 shares, having split seven times, were 12,800 shares worth $439,680, for a gain of 9,807 percent.

CEO L. Daniel Jorndt (left) and president David W. Bernauer in front of the New York Stock Exchange. Walgreens rang the opening bell at the NYSE June 14, 2001, as part of the company's centennial celebration.

Questions and Answers for Our Shareholders

November 19, 2001

In his just-published book, *Good to Great*, author Jim Collins identifies 11 companies that catapulted themselves from average to superior performance, then sustained those results for at least 15 years. Walgreens is one of the 11.

"From December 31, 1975, to January 1, 2000," writes Collins, "$1 invested in Walgreens beat $1 invested in technology superstar Intel by nearly two times, General Electric by nearly five times, Coca-Cola by nearly eight times, and the general stock market by over *fifteen* times."

"Nice," you're probably saying, "but what have you done for me lately?" Fair question.

Our stock performance of late does not reflect our company performance. In 2001, we turned in our 27th consecutive year of record results. And unlike many companies, we're optimistic about 2002. Our financial position has never been stronger, and we'll contribute significantly to the American economy in 2002 as we add 14,000 new jobs and spend approximately $1.3 billion on new stores, distribution centers and technology. As a percent of sales, the only major retailer investing more in its future than Walgreens is The Home Depot.

How are uncertainty and a tightening economy impacting growth plans?

CEO Dan Jorndt: They're **not**. Expansion is absolutely on target. We have the cash, we have the locations, we have the people. Our plan is to open 475 stores this fiscal year as we systematically march toward our goal of 6,000 by 2010. Net store growth–taking out relocations and closings–will also continue its 2001 trend. During the past two years, our net store gain was 699, compared to a net *loss* of 334 stores for our next four competitors *combined*.

Why should Walgreens be immune to an economic downturn?

President Dave Bernauer: We're not recession-*proof*, but we're certainly recession-*resistant*. We sell prescriptions and basic, consumable merchandise that people need regardless of the times. We're also optimistic about holiday sales. While we agree with analysts that Americans will tighten their spending belts this December, some of Walgreens best holiday selling seasons over the past 25 years have come during the worst of economic times. Again, it's *basics*. We're not selling cashmere sweaters and big-screen TVs.

It seems you're building a Walgreens on every corner. Aren't you already over-stored?

BERNAUER: Absolutely not. With the aging population and a 40 percent prescription sales increase forecast by 2006, this is the best time in our history to expand. Not only is there an accelerating need for what we sell, but markets where we have the best store coverage are also our most profitable. We're now No. 1 or 2 in market share in 25 of the nation's top 50 drugstore markets. That includes some new ones–in Las Vegas, which we entered just five years ago, we've already achieved No. 1 share. And in Dallas, also opened in 1996, we're No. 2.

Is store expansion dragging down earnings?

JORNDT: As anticipated, our rate of growth did impact 2001 earnings. You saw it in the third quarter, when we missed analysts' earnings estimates by a penny per share. But we met their expectations for the fourth quarter, and the good news is that, going forward, we'll open a comparable number of new stores each year for the foreseeable future. That should be very positive for earnings.

Also, we've already absorbed the heavy expenses of multiple new major market entries and in the process have established beachheads everyplace we need to be to meet our 2010 expansion goals.

Why did profits grow less than sales in 2001?

JORNDT: Gross profit margins were hit by two things. First, prescriptions, which carry lower margins than other items, are growing at a faster rate than general merchandise sales. Second, in the front of the store, we lowered prices on thousands of cosmetic items and promotional products this summer to drive in traffic and be competitive with mass merchandisers.

Sure, we want higher gross margins, but if I have to pick between a sales challenge and a gross profit challenge, I'll take gross every time. When sales are good, you have room to adjust and balance margins. But without sales, you're in trouble. Our promotions are working–customer counts in August and early September showed some of their best increases in my career. That trend was snapped September 11, but only for two weeks. It started coming back in early October.

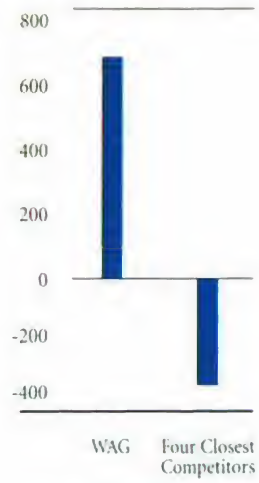
The pharmacist shortage has been big news. How is this impacting Walgreens?

BERNAUER: Aside from a few spot shortages, we're in good shape. Our financial strength, professional departments and systems, opportunities and long-term benefits attracted hundreds of new graduates and experienced pharmacists last year. We not only met ongoing needs, but hired the pharmacists needed to staff our 355 net new drugstores.

Has your distribution system kept pace with store growth?

BERNAUER: It's been stressed the past two years, but that will change when we open new distribution centers in West Palm Beach, Florida, and the Dallas metro area this fiscal year. A third new DC is under construction in northern Ohio, and we recently announced a Southern California center, planned to open in 2004. Each represents an investment of $140 million.

Net Store Growth, 1999-2001



Source: Published company reports

Product Market Share Growth

Sales Trends for Walgreens Top 50 Categories

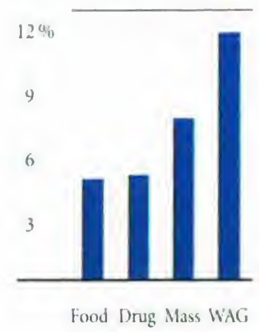


Chart compares Walgreens fiscal 2001 sales trends to grocery stores (food), all drugstores (drug) and discounters (mass).

Source: A.C. Nielsen

GIVING BACK

In 2001, Walgreens donated more than $3 million to charities, including $250,000 to the treatment and cure of HIV/AIDS. An additional $1 million went to educational institutions, primarily pharmacy schools and grade school tutoring programs. Walgreens is also a major national fundraiser for the Juvenile Diabetes Research Foundation, the American Heart Association, the American Cancer Society and United Way. In immediate response to the September 11 tragedy, the company and its employees raised $2.3 million for American Red Cross relief efforts in New York City and Washington, D.C.

Walgreens National Impact — Fiscal Year 2002

New jobs	14,000
Capital expenditures	$1.3 billion
New stores	475
New distribution centers	2

Numbers are based on company plans.

Charles R. Walgreen III (right), chairman emeritus and grandson of the founder, with his son Kevin on the floor of the New York Stock Exchange in June. Kevin Walgreen has 22 years of company experience and is a store operations vice president in the Chicago area.

What are Walgreens "dark clouds"?

JORNDT: Our chief concern today is the potential for a Medicare prescription plan that threatens a patient's right to choose a pharmacy. We're convinced that face-to-face pharmacist/patient relationships are best for healthcare. I'd like to be perfectly clear on this, however: We strongly support an *affordable* benefit that provides *real* relief to America's neediest seniors. A modest "crawl, walk, run" approach is critical. Our experience shows that prescription costs rise exponentially once coverage is provided to any group, and we believe the government has underestimated the cost of this benefit.

Dave Bernauer becomes CEO in January, while you remain chairman. What will this mean?

JORNDT: New blood, new face…same core strategy, same execution. We're an organization driven by long-term vision and values, led by people who've spent entire careers here. Like everything else at Walgreens, our leadership is planned and developed over years. For the company as a whole, this transition will be energizing.

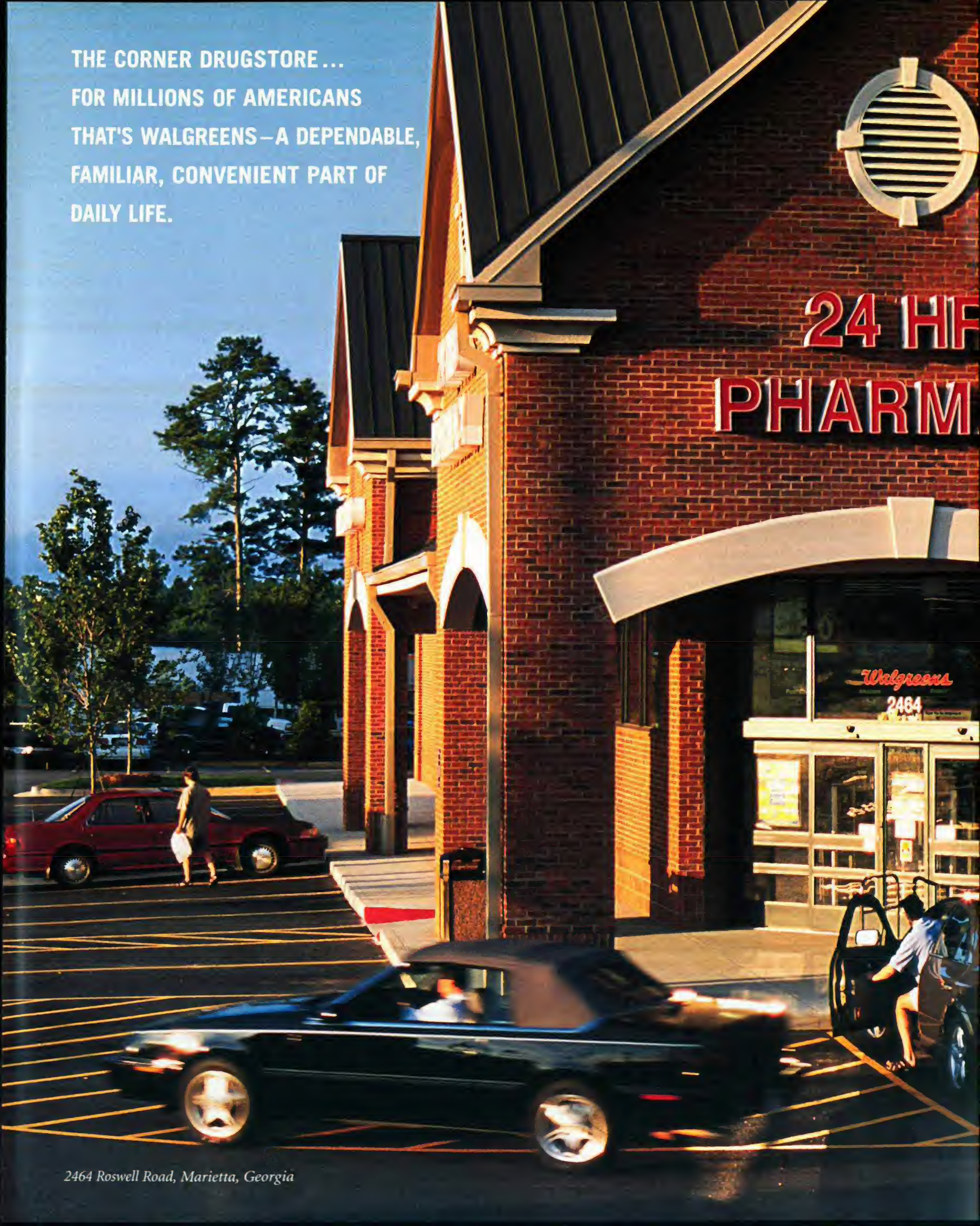
HARD WORK, DISCIPLINE, A STRONG FOCUS on day-to-day operations and consistent adherence to our strategy. That's what landed Walgreens in Jim Collins' book, and that's precisely how we plan to confront the future. We're blessed with thousands of long-serving employees who not only understand the value of such a culture, but enthusiastically pass it on to the "next generation."

These are tough days for America, with so many citizens–and businesses–facing immense challenges. We're so grateful we can continue to offer steady employment and strong career opportunities, pour investment and tax dollars back into local economies, and be a viable investment for you, our shareholders. It is the best way we know to serve our country.

L. Daniel Jorndt
Chairman & CEO

David W. Bernauer
President & COO

THE CORNER DRUGSTORE... FOR MILLIONS OF AMERICANS THAT'S WALGREENS—A DEPENDABLE, FAMILIAR, CONVENIENT PART OF DAILY LIFE.



2464 Roswell Road, Marietta, Georgia

For late night runs to the pharmacy or fill-in shopping between grocery trips, the Hegi family appreciates Walgreens.

GETTING THE GOODS OUT

To keep up with store growth and lower the cost of supplying goods, we'll open four high-tech distribution centers in the next three years, starting this January with our 650,000-square-foot center in West Palm Beach, Florida. Three more are planned in Texas, Ohio and Southern California. Each center represents an investment of $140 million.

LOOKING GOOD FOR OUR AGE

At 101, Walgreens is one of America's oldest companies. But our stores get younger every year–50 percent are now less than four-and-a-half years old. Customers benefit from a very convenient, up-to-date shopping experience delivered by a familiar, veteran retailer.

ECONOMICS 101

$1,000 invested in Walgreen stock 50 years ago would be worth $3.2 million today, assuming all dividends were reinvested.

"Ever since Kate was born, we've been running to Walgreens at least twice a week," says Amy Hegi, featured with her husband Peter and Kate in a Dallas park. "We love the personal, small town feeling of our neighborhood store, and it's always so tidy." The Hegis, who moved to California in September so Peter could attend graduate school, find their new Walgreens in Palo Alto as convenient as the one they hated to leave back home. "There's something comforting about walking into Walgreens," adds Amy. "This move meant a lot of changes for us, but our drugstore wasn't one of them."

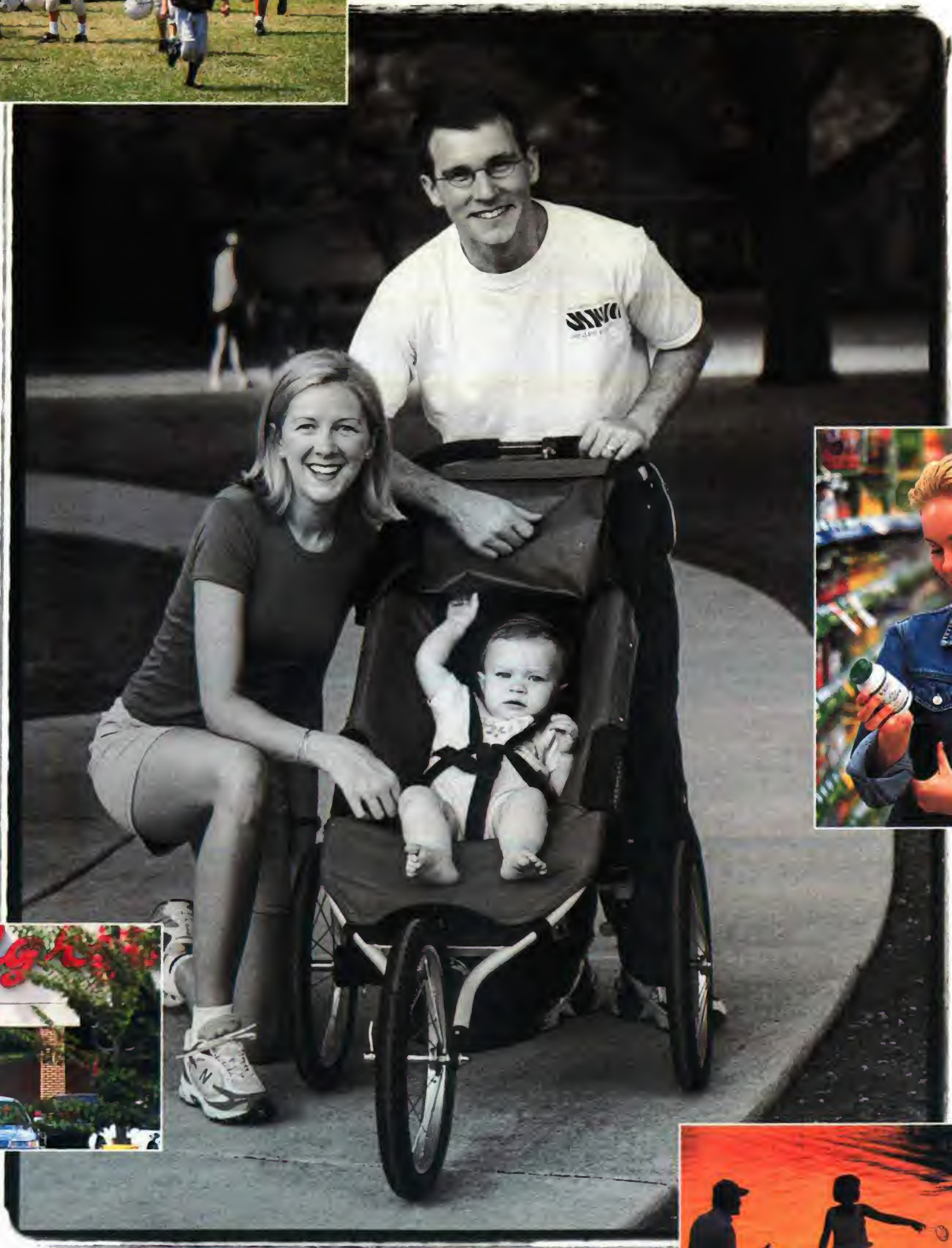
WE'RE NO. 2 IN DALLAS AFTER JUST FIVE YEARS

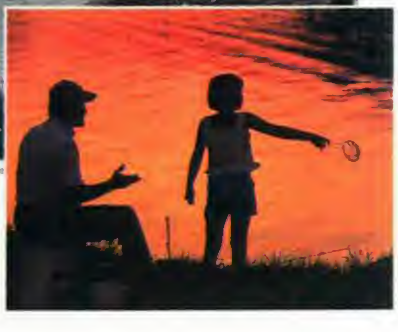
Texas thinks big–big country, big hats, big football teams. Walgreens thinks big here, too. With 358 stores, Texas is our third largest state. We'll open 48 "Lone Star" stores this fiscal year, 33 of them net new. Many will be in the Dallas/Ft. Worth market, where we started with 14 stores in 1996 and now have close to 100 locations... and the No. 2 slot in market share. In Houston, Austin and El Paso, we're No. 1.

We now have stores in every major U.S. market where we need to be to meet our goal of 6,000 stores by 2010. New areas include Atlanta, Detroit and Southern California. But in no way are we limited to growth in new markets. We also continue to expand in established cities such as Chicago, Miami, Minneapolis and St. Louis. As we add stores, we spread our costs for advertising, distribution and headquarters' expense over a larger sales base, thus improving profitability.

In 2001 we opened 474 stores, 105 of them relocations to better serve our customers. We now rank No. 1 in 16 of the top 50 drugstore markets and No. 2 in nine of them.

Feature photo: *Peter Hegi, shown with his wife Amy and baby Kate, was a college gymnast who never gave up the sport. The 27-year-old now volunteers as a kids' gymnastics coach... and makes Advil runs to his neighborhood Walgreens for occasional aches and pains.* ***Color photos:*** *Texans' love for football (top left) and outdoor sports (bottom right) can't be rivaled. Health-conscious customer Megan Patrick (top right) checks out herbal products at a Dallas store (bottom left).*






CHICAGO

Beyond selling snacks and school supplies, we're supporting academic growth in this inner city neighborhood.

Rudy Villalba (left) wants to be a lawyer, Brandon Gipson (right) wants to be a doctor and writer, and Tommy Amal (center) wouldn't mind a career in sports. To help them and hundreds of other inner city students reach their goals, Walgreens provides funding and volunteer tutors for Midtown Educational Foundation. Midtown runs after-school and summer programs for Chicago boys and girls to strengthen academic skills and help build character.

WALGREENS SERVES A DIVERSE AMERICA

Within the last 10 years, U.S. ethnic populations have jumped almost 27 percent, to the point where one in every three citizens is now part of an ethnic minority. The largest growth has been among Hispanic and Asian Americans, both groups whose numbers have increased more than 50 percent.

To Walgreens, "All-American" marketing means diversity marketing. We serve every ethnic group in the United States by providing an integrated selection of merchandise such as hair and skin care products, cosmetics and food.

Many of our top-performing stores cater to urban neighborhoods underserved by most national chains. We've been doing that for decades–customers count on us to fill in the gap, and we respond by stocking items they need, including expanded food sections in areas where grocery stores are scarce.

Just like nobody's kid is "average," no Walgreen store is average. BDM, our basic department management system, is being used to tailor certain product categories to individual stores across the chain. Using BDM, we've seen significant improvements in sales trends this past year for categories such as paper goods and audio/video supplies. And take an item as basic as candy, where our displays vary depending on demographics. In urban markets, we know novelty candies under a dollar do exceptionally well. We can also forecast when we'll need more jelly pops and where we'll need more cotton candy.

***Feature photo** (left to right): Rudy Villalba, Tommy Amal and Brandon Gipson and their families are regular Walgreen shoppers. "When I go to Walgreens with my mom," says Rudy, "she heads for the beauty counter and I go straight to candy." **Color photos:** Chicagoans walk their city and flock to popular spots like the lakefront (top) and State Street (bottom right). Shopper Loretta Jacobs frequents our Wilmette store in the northern suburbs of Chicago (bottom left).*

CUSTOMERS LOVE BEING CLOSE

Two-thirds of the U.S. population lives within 10 miles of a Walgreen store today. But only 42 percent live within two miles, which–in every focus group we conduct–is what people describe as optimum. This consumer demand supports our expansion goals.

WELL-SEASONED

Seasonal merchandise had sales of approximately $1 billion in fiscal 2001. Given the recession-resistant nature of our business, we anticipate a strong holiday selling season in 2001. Over the past quarter century, some of Walgreens best Christmas results have come during the worst of economic times.

AIR WAVES

Walgreens now has an exclusive healthcare partnership with Univision, the leading Spanish-language television advertising medium. In nine of our key Hispanic markets in the United States, Walgreen pharmacists will be featured in newscasts discussing various healthcare issues.

Engaged at a Walgreen grill 46 years ago, the Farthings are thrilled to see us back in Atlanta.

The Farthings have fond memories of April 10, 1955, when David proposed to Bobbie at the Walgreen lunch counter on Peachtree Street in Atlanta. Walgreens left Georgia in the early 1970s, but in October 1999 we came back and now have 30 stores. These days, the Farthings stop at Walgreens once or twice a week. "We're comparison shoppers," says Bobbie, "and the milk and cereal prices at Walgreens are very competitive with grocery stores."

WE'LL OPEN 300 SUNBELT STORES IN 2002

As baby boomers retire, they'll migrate to states like Arizona, California, Florida, Georgia, Texas and the Carolinas. Walgreens will be ready for them. By the end of 2002, we'll have 1,617 stores in the Sunbelt with plans for continued expansion. And as the number of people 65 years and older skyrockets, dollars spent on prescriptions will also swell–rising almost 40 percent by 2006. Just since 1996, prescriptions have jumped from 45 percent of Walgreens total sales to nearly 58 percent.

But the challenge for everyone in the business is the number of pharmacists, which will increase only 5.4 percent in the same time period. That means that by 2006 our pharmacists will be filling 40 percent more prescriptions than they do today.

To handle this jump, we'll continue to improve our technology, training systems and physical work environments, already recognized as superior within the industry. By being more efficient, we plan to increase the average number of prescriptions filled per store from 300 to more than 400 per day in the next five years.

Other boosts to the prescription business are the influx of new drugs and the generic availability of highly prescribed drugs like Prozac. As branded drugs go generic, prices for customers are lowered significantly, and both managed care companies and retailers benefit as well.

***Feature photo:** David and Bobbie Farthing hold a 1950s photo taken around the time they were engaged at a Walgreen grill. **Color photos** (clockwise from top left): Our 595 Piedmont Avenue store in downtown Atlanta is one of 30 we've recently opened in the area. Store manager Gary Dore in Stone Mountain, Georgia, has relocated to three different markets in his 19 years with Walgreens. In the last two years, he's opened three stores in "The Peach State."*

NEW STORES, HIGH PERFORMANCE

Sales in comparable stores (those open more than a year) rose 10.5 percent in fiscal 2001. Comparable store pharmacy sales climbed 17.6 percent for the year.

THE RIGHT PLACE AT THE RIGHT TIME

According to Forbes *magazine, September 17, 2001: "For long-term growth, it's hard to beat the prescription drug market, worth $140 billion at retail last year and compounding at 15 percent or more annually. Demography favors the industry: Society is aging and the elderly consume three times as many prescription drugs as the population as a whole."*

GENERIC SAVINGS

Based on several major drugs scheduled to lose their patents in the next four years, Walgreens estimates its patients will save at least $40 million per year.


ALIDA LUCIANO
AUGMENTIN

Intensely loyal employees like Alida Luciano make us proud to be celebrating 40 years on this island.

"Given my strengths, this is the best place I could possibly work," says Alida Luciano, pharmacy manager in Mayaguez, Puerto Rico. "It's a solid company and, if you want, you can reach the stars." Luciano, a 14-year employee, loves counseling her patients. As the parent of 5-year-old triplets (one with Down syndrome) and a 4-year-old, she's built unusually strong personal connections with many mothers. "When I speak from my own experience, they feel more comfortable and open up to me," says Luciano. "This helps me understand their needs and provide better solutions."

WE SERVED 37.5 MILLION PATIENTS IN OUR PHARMACIES IN 2001

Alida Luciano's openness with customers illustrates a vital part of the pharmacy profession–face-to-face interaction with patients who need it. These personal connections–along with our nationwide network of stores–build loyalty. To free our pharmacists' time for consultation, we give patients the option of ordering prescriptions by phone or online so we can provide a higher level of service in the store.

Through pharmacy technician certification, which nearly 9,000 of our techs have already completed, we've elevated the status of pharmacy technicians to better assist pharmacists. And we continue to upgrade our Intercom Plus computer/workflow system to the tune of three or four new releases per year–not even Microsoft has that many!

Beyond our traditional retail pharmacy business, Walgreens Specialty Pharmacy services are offered nationwide. This program assists people living with cystic fibrosis, growth hormone deficiency, hepatitis, HIV/AIDS and multiple sclerosis. Patients receive medications and face-to-face consultation at their neighborhood Walgreen store, while individual care coordination, support and education are provided by national clinical pharmacy staff members trained in these disease states. These Pharmaceutical Care Center clinicians are our "pharmacy behind the pharmacy," available 24 hours a day, seven days a week. They are part of Walgreens Health Initiatives, our managed care division.

DISHES AND ANTENNAS

After the government, Walgreens is the largest user of satellite transmission in the country. Among other things, this allows a seamless transfer of prescriptions. In the days following the September 11 terrorist attacks, Walgreens helped more than 25,000 stranded travelers with emergency prescription needs.

WEB-WISE

Walgreens.com now has 2.5 million registered users and is receiving more than 10,000 prescription requests per day, double a year ago. More than 95 percent of the users request store pickup.

MANAGED CARE ADVANTAGE

With stores in 43 states and Puerto Rico, we have a base of customers that covers more of the U.S. than any other drugstore chain. Our national coverage is a major advantage in negotiations with managed care pharmacy companies.

Feature photo: *Alida Luciano, pharmacy manager in Mayaguez, Puerto Rico, says that since she became a parent she's also become more patient. "I've slowed down," says Alida. "Now I celebrate everything–from days when we fill 500 prescriptions to successes at home, like my disabled child taking a few small steps."* ***Color photos:*** *Brilliant sunlight and clear-blue skies enhance views from Old San Juan (top left and right). Puerto Rico employees, like Luciano's busy pharmacy staff (bottom), are proud to work for Walgreens.*

At the corners of Colorado and Nebraska, Walgreens only Wyoming store rounds up customers from three states.

With two jobs, five kids, a home in Denver and a ranch near Cheyenne, Bonnie and Steve Bangert appreciate Walgreens hassle-free service and convenient drive-thru pharmacies. For this family, trips to our Denver and Cheyenne stores have become one-stop shopping experiences. "At first it was just prescriptions and Band-Aids," says Bonnie. "But now we're buying school supplies, Halloween candy, film and anything else we need."

WE HAVE MORE DRIVE-THRU PHARMACIES THAN ANY OTHER DRUGSTORE CHAIN

Busy families like the Bangerts take full advantage of our drive-thru pharmacies because it saves them time. Sixty-nine percent of our stores now have drive-thru windows, and we plan to increase that to at least 85 percent by 2006.

Walgreens 24-hour pharmacies give patients flexibility of service during the wee hours. But more importantly, when a child runs a high fever or a spouse has an asthma attack in the middle of the night, we're there to help. We have 780 24-hour stores with plans for 1,300 by 2006.

One-hour photo processing is now available in nearly every store. Photography, like pharmacy, maintains very strong ties with customers–they trust us to preserve their memories. We're improving service in photography through Picture Care Plus–our second-generation tracking and workflow system. Patterned after Intercom Plus in the pharmacy, it gives us more precise scheduling and pricing information. Picture Care Plus is now in 90 percent of our stores and will be chainwide by January.

In our convenience food aisles, competitively priced milk attracts shoppers and has helped us substantially increase sales in this category nationwide. We're also introducing private-brand milk and bread products, now being tested in selected markets.

Feature photo: *Bonnie and Steve Bangert enjoy time with their five children on a ranch near Cheyenne, where they raise longhorn cattle for show. The Bangerts are active in Cheyenne Frontier Days, a weeklong celebration that pulled in 500,000 tourists and generated a 60 percent July sales increase in Wyoming's only Walgreen store.* ***Color photos:*** *Scenes from Frontier Days include Native American headdress on parade (top left) and a bucking bronco (bottom right). Ten-gallon hat customer Paul Jones peruses the ads at our Cheyenne store (top right). Cheyenne (bottom) sits at the intersection of Interstates 25 and 80 in southeast Wyoming, 100 miles north of Denver.*

GREEN STORE DESIGN

We're designing stores with energy-efficient rooftop air conditioning units and electronic ballasts for fluorescent lighting. Walgreens is also a partner with the Environmental Protection Agency's Energy Star program, which promotes energy-efficient technology in new construction.

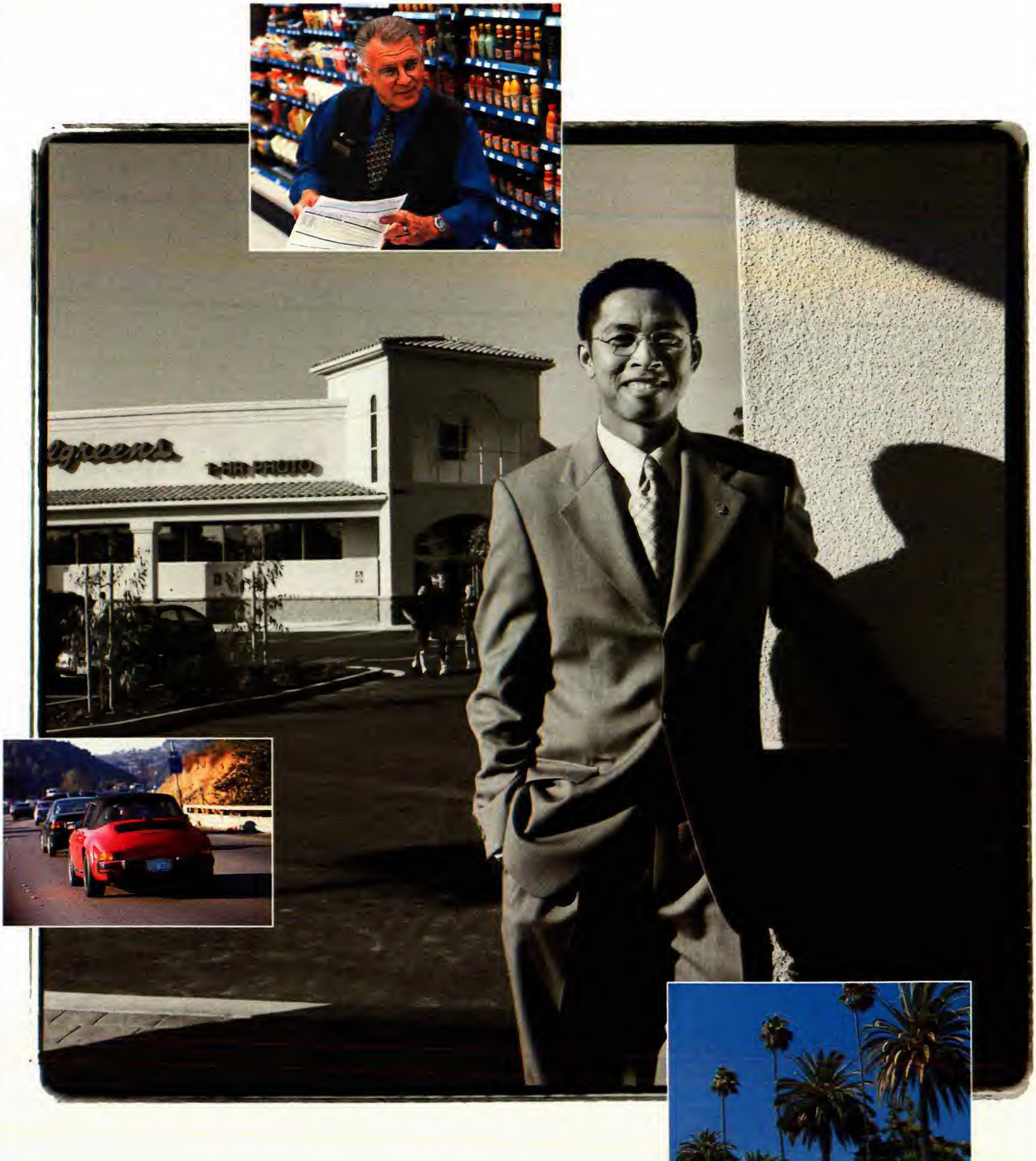
FILM FOR LIFE

Maybe you've seen the promotion: When customers buy Walgreens Studio 35 reusable camera, we'll provide free film for its life. So far, the majority of "loyalty" cameras sold have been returned for 1-hour photoprocessing and free film.

PRETTY FACE

We're increasing sales in cosmetics by lowering prices on all lines, grouping products in ways consumers want and promoting hot new items more aggressively. Among non-department stores, Walgreens is the No. 2 seller of cosmetics, second only to Wal-Mart.


DENVER
LEFT 1 BLOCK
LARAMIE


1-HR PHOTO

As we grow in Southern California, new opportunities abound for pharmacists and store operations people.

Tri Leu, Walgreens district manager in Southern California, was seven when his family fled Vietnam by boat. When he and 11 relatives arrived in San Diego in 1975, they lived at the Camp Pendleton Marine Corps base until a church in Phoenix agreed to be their sponsor. Leu started working for Walgreens part-time when he was 18, but never considered it a career until he was asked to join the management program. Today, he's 33, has almost 15 years with Walgreens and was promoted to district manager last year.

WE PROMOTED 22 DISTRICT MANAGERS AND 712 STORE MANAGERS IN 2001

We opened our first full-size store in Southern California in March 1999. Today, we have 45 stores and plan to open 45 more in 2002. Rapid growth means exceptional career opportunities here–and everywhere. Nationwide, we'll need 3,078 store managers, 114 district managers and 16 operations vice presidents by 2006.

Thanks to aggressive recruiting over the last few years, our hiring needs were met in fiscal 2001–a year when we added 355 net new stores. In pharmacy, we made excellent progress in closing the pharmacist shortage gap. Only a few isolated geographic pockets still have shortages. Across the country, there were only 900 new pharmacists available for retail work last year, taking into account people who retired or left the profession. In contrast, Walgreens net gain was over 2,000, which means we hired more than double those available. The majority of these are experienced pharmacists from other companies.

People build careers at Walgreens because of our opportunities, stability, professional work environment and benefits like profit sharing and broad-based stock option plans. It's not unusual to find employees with 25, 35, even 45 years of service. For employees *and* customers, we're a constant in American life–something dependable, always there, with a strong focus on the future and a century-old tradition of respect and trust.

CERTIFIABLE

Walgreens has more employees who have passed the Pharmacy Technician Certification Board exam than any other drugstore chain. As of September, 2,942 store managers, 2,853 assistant managers and 8,818 pharmacy techs had been certified.

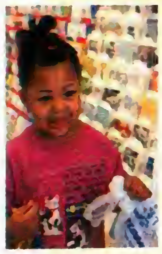
AS *FORTUNE* WOULD HAVE IT

We rank 90th on the Fortune 500 list, and for the eighth consecutive year, Walgreens was included on Fortune *magazine's "Most Admired Corporations in America" list.*

WALGREEN NEIGHBORHOOD

We operate stores in the neighborhoods of nearly 119 million Americans.

Feature photo: *As a young boy, Tri Leu (shown in front of our new Oxnard, California, store) helped support his family by delivering newspapers. "My early experiences taught me how important it is for families to stick together," says Leu. "I also learned to be self-reliant, and that has helped me in my career at Walgreens."* ***Color photos:*** *Assistant store manager Ed Krueger in Oxnard (top) has been with the company 20 years. He originally worked at our distribution center in Windsor, Wisconsin, and is now in the store operations management training program. "I was born to be a store manager," says Krueger. "It just took me 20 years to figure that out."*



Kayla Norris, Customer
Lawrenceville, Georgia

Eleven-Year Summary of Selected Consolidated Financial Data

Walgreen Co. and Subsidiaries (Dollars in Millions, except per share data)

Fiscal Year		*2001*	*2000*	*1999*
Net Sales		$24,623.0	$21,206.9	$17,838.8
Costs and Deductions	Cost of sales	18,048.9	15,465.9	12,978.6
	Selling, occupancy and administration	5,175.8	4,516.9	3,844.8
	Other (income) expense *(1)*	(24.4)	(39.2)	(11.9)
	Total Costs and Deductions	23,200.3	19,943.6	16,811.5
Earnings	Earnings before income tax provision and cumulative effect of accounting changes	1,422.7	1,263.3	1,027.3
	Income tax provision	537.1	486.4	403.2
	Earnings before cumulative effect of accounting changes	885.6	776.9	624.1
	Cumulative effect of accounting changes *(2)*	–	–	–
	Net Earnings	$ 885.6	$ 776.9	$ 624.1
Per Common Share *(3)*	Net earnings *(2)*			
	Basic	$ .87	$ .77	$ .62
	Diluted	.86	.76	.62
	Dividends declared	.14	.14	.13
	Book value	5.11	4.19	3.47
Non-Current Liabilities	Long-term debt	$ 20.8	$ 18.2	$ 18.0
	Deferred income taxes	137.0	101.6	74.8
	Other non-current liabilities	457.2	446.2	405.8
Assets and Equity	Total assets	$ 8,833.8	$ 7,103.7	$ 5,906.7
	Shareholders' equity	5,207.2	4,234.0	3,484.3
	Return on average shareholders' equity	18.8%	20.1%	19.7%
Drugstore Units	Year-end: Units *(4)*	3,520	3,165	2,821

(1) Fiscal 2001 and 2000 include pre-tax income of $22.1 million ($13.6 million after-tax or $.01 per share) and $33.5 million ($20.5 million after-tax or $.02 per share), respectively, from the partial payments of the brand name prescription drugs litigation settlement. Fiscal 1998 includes a pre-tax gain of $37.4 million ($22.9 million after-tax or $.02 per share) from the sale of the company's long-term care pharmacy business.

(2) Fiscal 1998 includes the $26.4 million ($.03 per share) charge from the cumulative effect of accounting change for system development costs. Fiscal 1993 includes the $23.6 million ($.02 per share) costs from the cumulative effect of accounting changes for postretirement benefits and income taxes.

(3) Per share data have been adjusted for two-for-one stock splits in 1999, 1997, 1995 and 1991.

(4) Units include mail service facilities.

Dale Johnson, Store Manager
Chicago, Illinois

1998	1997	1996	1995	1994	1993	1992	1991
$15,306.6	$13,363.0	$11,778.4	$10,395.1	$9,235.0	$8,294.8	$7,475.0	$6,733.0
11,139.4	9,681.8	8,514.9	7,482.3	6,614.4	5,959.0	5,377.7	4,829.2
3,332.0	2,972.5	2,659.5	2,392.7	2,164.9	1,929.6	1,738.8	1,582.7
(41.9)	(3.9)	(2.9)	(3.6)	(2.7)	6.5	5.5	9.1
14,429.5	12,650.4	11,171.5	9,871.4	8,776.6	7,895.1	7,122.0	6,421.0
877.1	712.6	606.9	523.7	458.4	399.7	353.0	312.0
339.9	276.1	235.2	202.9	176.5	154.4	132.4	117.0
537.2	436.5	371.7	320.8	281.9	245.3	220.6	195.0
(26.4)	–	–	–	–	(23.6)	–	–
$ 510.8	$ 436.5	$ 371.7	$ 320.8	$ 281.9	$ 221.7	$ 220.6	$ 195.0
$ .51	$ .44	$ .38	$ .33	$ .29	$ .23	$ .22	$ .20
.51	.44	.37	.32	.29	.23	.22	.20
.13	.12	.11	.11	.09	.08	.07	.06
2.86	2.40	2.08	1.82	1.60	1.40	1.25	1.10
$ 13.6	$ 3.3	$ 3.4	$ 2.4	$ 1.8	$ 6.2	$ 18.7	$ 123.0
89.1	112.8	145.2	142.3	137.7	144.2	171.8	155.3
369.9	279.2	259.9	237.6	213.8	176.2	103.8	85.1
$ 4,901.6	$ 4,207.1	$ 3,633.6	$ 3,252.6	$2,872.8	$2,506.0	$2,346.9	$2,074.4
2,848.9	2,373.3	2,043.1	1,792.6	1,573.6	1,378.8	1,233.3	1,081.2
19.6%	19.8%	19.4%	19.1%	19.1%	18.8%	19.1%	19.2%
2,549	2,358	2,193	2,085	1,968	1,836	1,736	1,646


Don Lockett, Customer
Chicago, Illinois

Management's Discussion and Analysis of Results of Operations and Financial Condition

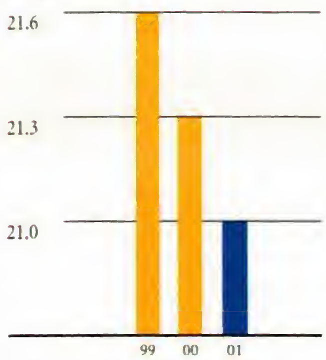
Results of Operations

Fiscal 2001 was the 27th consecutive year of record sales and earnings. Net earnings were $885.6 million or $.86 per share (diluted), an increase of 14.0% from last year's earnings of $776.9 million or $.76 per share. Included in this year's results was a $22.1 million pre-tax gain ($.01 per share) for a partial payment of the company's share of the brand name prescription drugs antitrust litigation settlement. Last year's results included a $33.5 million ($.02 per share) comparable payment. Excluding these gains, fiscal year earnings rose 15.3%.

Total net sales increased by 16.1% to $24.6 billion in fiscal 2001 compared to increases of 18.9% in 2000 and 16.5% in 1999. Drugstore sales increases resulted from sales gains in existing stores and added sales from new stores, each of which include an indeterminate amount of market-driven price changes. Comparable drugstore (those open at least one year) sales were up 10.5% in 2001, 11.7% in 2000 and 11.2% in 1999. New store openings accounted for 11.3% of the sales gains in 2001, 10.6% in 2000 and 10.0% in 1999. The company operated 3,520 drugstores as of August 31, 2001, compared to 3,165 a year earlier.

Prescription sales increased 20.9% in 2001, 25.3% in 2000 and 23.3% in 1999. Comparable drugstore prescription sales were up 17.6% in 2001, 19.0% in 2000 and 19.4% in 1999. Prescription sales were 57.5% of total sales for fiscal 2001 compared to 55.2% in 2000 and 52.4% in 1999. Third party sales, where reimbursement is received from managed care organizations and government and private insurance, were 88.4% of pharmacy sales in 2001, 86.1% in 2000 and 83.5% in 1999. Pharmacy sales trends are expected to continue primarily because of increased penetration in existing markets, availability of new drugs and demographic changes such as the aging population.

SG&A Expense
(as a percent to sales)



Gross margins as a percent of sales were 26.7% in 2001, 27.1% in 2000 and 27.2% in 1999. Contributing to the decline in gross margin was the continuing shift in sales mix toward pharmacy, which carries lower margins than the rest of the store. Within pharmacy, third party prescription sales, which typically have lower profit margins than cash prescriptions, continue to trend upward. Non-pharmacy margins also declined as a result of aggressive sale pricing and reduced prices in the cosmetic area, which were designed to increase customer count.

The company uses the last-in, first-out (LIFO) method of inventory valuation. The effective LIFO inflation rates were 1.93% in 2001, 1.36% in 2000 and 1.84% in 1999, which resulted in charges to cost of sales of $62.8 million in 2001, $38.8 million in 2000 and $45.2 million in 1999. Inflation on prescription inventory was 4.9% in 2001, 3.5% in 2000 and 5.2% in 1999.

Selling, occupancy and administration expenses were 21.0% of sales in fiscal 2001, 21.3% of sales in fiscal 2000 and 21.6% of sales in fiscal 1999. The decrease in fiscal 2001, as a percent to sales, was caused by lower advertising and headquarters expenses as well as other fixed costs which are being spread over a larger base of stores.

Interest income decreased in 2001 principally due to lower investment levels. Average net investment levels were approximately $31 million in 2001, $64 million in 2000 and $220 million in 1999.

The effective tax rate decreased to 37.75% this fiscal year compared to 38.50% in fiscal 2000 and 39.25% in fiscal 1999. These decreases were principally the result of lower state income taxes and the settlement of various IRS matters.

Laura Zadravecz, Store Manager
West Palm Beach, Florida

Financial Condition

Cash and cash equivalents were $16.9 million at August 31, 2001, compared to $12.8 million at August 31, 2000. Short-term investment objectives are to maximize yields while minimizing risk and maintaining liquidity. To attain these objectives, investment limits are placed on the amount, type and issuer of securities.

Net cash provided by operating activities for fiscal 2001 was $719 2 million compared to $971.7 million a year ago. The change between periods was principally due to increased inventory levels which increased, in part, due to the opening of 355 net new stores from a year ago. The company's profitability is the principal source for providing funds for expansion and remodeling programs, dividends to shareholders and funding for various technological improvements.

Net cash used for investing activities was $1.1 billion in fiscal 2001 and $1.0 billion in 2000. Additions to property and equipment were $1.2 billion compared to $1.1 billion last year. During the year, 474 new or relocated drugstores were opened. This compares to 462 new or relocated drugstores opened in the same period last year. New stores are owned or leased. There were 245 owned locations opened during the year or under construction at August 31, 2001, versus 253 for the same period last year.

Capital expenditures for fiscal 2002 are expected to be approximately $1.3 billion. The company expects to open 475 new stores in fiscal 2002 and have a total of 6,000 drugstores by the year 2010. The company is continuing to relocate stores to more convenient and profitable freestanding locations. In addition to new stores, a significant portion of the expenditures will be made for technology and distribution centers. Three new distribution centers are under construction in West Palm Beach, Florida, Ohio and the Dallas metropolitan area. Another is planned in Southern California. An existing center in Woodland, California, is being expanded.

Net cash provided by financing activities was $419.4 million compared to $63.3 million used a year ago. The change was principally due to increases in short-term commercial paper borrowings. These were needed to support the company's store and distribution center growth, which includes purchases of new store property, equipment and inventory. Based on the company's credit rating, additional short-term borrowings are readily available to support this growth. At August 31, 2001, the company had approximately $152 million in unused bank lines of credit and $100 million of unissued authorized debt securities, previously filed with the Securities and Exchange Commission.

Capital Expenditures — Fiscal Year 2002
We plan to spend $1.3 billion.

In June 2001, Financial Accounting Standards Board Statement No. 142, "Goodwill and Other Intangible Assets," was issued. Under this pronouncement, which the company intends to adopt in fiscal 2002, goodwill will no longer be amortized but periodically tested for impairment. The adoption of this pronouncement is not expected to have a material impact on the company's consolidated financial position or results of operations.

Also issued during the year were SFAS No. 141, "Business Combinations," and SFAS No. 143, "Accounting for Asset Retirement Obligations," neither of which are expected to impact the company's consolidated financial position or results of operations. SFAS No. 141 requires business combinations to be accounted for by the purchase method of accounting as opposed to pooling of interest. SFAS No. 143 defines the timing and valuation of legal obligations associated with the retirement of long-term assets.

Cautionary Note Regarding Forward-Looking Statements

Certain statements and projections of future results made in this report constitute forward-looking information that is based on current market, competitive and regulatory expectations that involve risks and uncertainties. Those risks and uncertainties include changes in economic conditions generally or in the markets served by the company; consumer preferences and spending patterns; changes in state or federal legislation or regulations; the availability and cost of real estate and construction; competition; and risks of new business areas. Please see Walgreen Co.'s Form 10-K for the period ended August 31, 2001, for a discussion of certain other important factors as they relate to forward-looking statements. Actual results could differ materially.

Zahira Gonzalez, Pharmacy Technician Mayaguez, Puerto Rico

Consolidated Statements of Earnings and Shareholders' Equity

Walgreen Co. and Subsidiaries for the Years Ended August 31, 2001, 2000 and 1999 (Dollars in Millions, except per share data)

	Earnings	2001	2000	1999
Net Sales		$24,623.0	$21,206.9	$17,838.8
Costs and Deductions	Cost of sales	18,048.9	15,465.9	12,978.6
	Selling, occupancy and administration	5,175.8	4,516.9	3,844.8
		23,224.7	19,982.8	16,823.4
Other (Income) Expense	Interest income	(5.4)	(6.1)	(12.3)
	Interest expense	3.1	.4	.4
	Other income	(22.1)	(33.5)	–
		(24.4)	(39.2)	(11.9)
Earnings	Earnings before income tax provision	1,422.7	1,263.3	1,027.3
	Income tax provision	537.1	486.4	403.2
	Net Earnings	$ 885.6	$ 776.9	$ 624.1
Net Earnings per Common Share	Basic	$ .87	$ .77	$ .62
	Diluted	$ .86	$ .76	$ .62
	Average shares outstanding	1,016,197,785	1,007,393,572	1,000,363,234
	Dilutive effect of stock options	12,748,828	12,495,236	13,918,481
	Average shares outstanding assuming dilution	1,028,946,613	1,019,888,808	1,014,281,715

Shareholders' Equity	Common Stock Shares	Common Stock Amount	Paid-in Capital	Retained Earnings
Balance, August 31, 1998	996,487,044	$77.8	$118.1	$2,653.0
Net earnings	–	–	–	624.1
Cash dividends declared ($.13 per share)	–	–	–	(130.1)
Employee stock purchase and option plans	7,535,214	.6	140.8	–
Balance, August 31, 1999	1,004,022,258	78.4	258.9	3,147.0
Net earnings	–	–	–	776.9
Cash dividends declared ($.135 per share)	–	–	–	(136.1)
Employee stock purchase and option plans	6,796,632	.6	108.3	–
Balance, August 31, 2000	1,010,818,890	79.0	367.2	3,787.8
Net earnings	–	–	–	885.6
Cash dividends declared ($.14 per share)	–	–	–	(142.5)
Employee stock purchase and option plans	8,606,162	.6	229.5	–
Balance, August 31, 2001	1,019,425,052	$79.6	$596.7	$4,530.9

The accompanying Statement of Major Accounting Policies and the Notes to Consolidated Financial Statements are integral parts of these statements.

Richard Drew,
Distribution Employee
Mt. Vernon, Illinois

Consolidated Balance Sheets

Walgreen Co. and Subsidiaries at August 31, 2001 and 2000 (Dollars in Millions)

	Assets	*2001*	*2000*
Current Assets	Cash and cash equivalents	$ 16.9	$ 12.8
	Accounts receivable, net	798.3	614.5
	Inventories	3,482.4	2,830.8
	Other current assets	96.3	92.0
	Total Current Assets	4,393.9	3,550.1
Non-Current Assets	Property and equipment, at cost, less accumulated depreciation and amortization	4,345.3	3,428.2
	Other non-current assets	94.6	125.4
	Total Assets	$8,833.8	$7,103.7

	Liabilities and Shareholders' Equity		
Current Liabilities	Short-term borrowings	$ 440.7	$ –
	Trade accounts payable	1,546.8	1,364.0
	Accrued expenses and other liabilities	937.5	847.7
	Income taxes	86.6	92.0
	Total Current Liabilities	3,011.6	2,303.7
Non-Current Liabilities	Deferred income taxes	137.0	101.6
	Other non-current liabilities	478.0	464.4
	Total Non-Current Liabilities	615.0	566.0
Shareholders' Equity	Preferred stock, $.0625 par value; authorized 32 million shares; none issued	–	–
	Common stock, $.078125 par value; authorized 3.2 billion shares; issued and outstanding 1,019,425,052 in 2001 and 1,010,818,890 in 2000	79.6	79.0
	Paid-in capital	596.7	367.2
	Retained earnings	4,530.9	3,787.8
	Total Shareholders' Equity	5,207.2	4,234.0
	Total Liabilities and Shareholders' Equity	$8,833.8	$7,103.7

The accompanying Statement of Major Accounting Policies and the Notes to Consolidated Financial Statements are integral parts of these statements.

Sean LeBreque,
Store Manager
Oxnard, California

Consolidated Statements of Cash Flows

Walgreen Co. and Subsidiaries for the Years Ended August 31, 2001, 2000 and 1999 (In Millions)

Fiscal Year		*2001*	*2000*	*1999*
Cash Flows from Operating Activities	Net earnings	$ 885.6	$ 776.9	$ 624.1
	Adjustments to reconcile net earnings to net cash provided by operating activities –			
	Depreciation and amortization	269.2	230.1	210.1
	Deferred income taxes	46.9	21.0	(9.4)
	Income tax savings from employee stock plans	67.3	38.5	26.8
	Other	2.1	13.6	12.2
	Changes in operating assets and liabilities –			
	Inventories	(651.6)	(368.2)	(435.7)
	Trade accounts payable	182.8	233.7	223.4
	Accounts receivable, net	(177.3)	(135.4)	(106.0)
	Accrued expenses and other liabilities	82.2	101.2	103.7
	Income taxes	(5.4)	28.6	8.6
	Other	17.4	31.7	(5.8)
	Net cash provided by operating activities	719.2	971.7	652.0
Cash Flows from Investing Activities	Additions to property and equipment	(1,237.0)	(1,119.1)	(696.3)
	Disposition of property and equipment	43.5	22.9	41.7
	Net proceeds from corporate-owned life insurance	59.0	58.8	9.1
	Net cash used for investing activities	(1,134.5)	(1,037.4)	(645.5)
Cash Flows from Financing Activities	Proceeds from short-term borrowings	440.7	–	–
	Cash dividends paid	(140.9)	(134.6)	(128.6)
	Proceeds from employee stock plans	126.1	79.2	105.0
	Other	(6.5)	(7.9)	14.5
	Net cash provided by (used for) financing activities	419.4	(63.3)	(9.1)
Changes in Cash and Cash Equivalents	Net increase (decrease) in cash and cash equivalents	4.1	(129.0)	(2.6)
	Cash and cash equivalents at beginning of year	12.8	141.8	144.4
	Cash and cash equivalents at end of year	$ 16.9	$ 12.8	$ 141.8

The accompanying Statement of Major Accounting Policies and the Notes to Consolidated Financial Statements are integral parts of these statements.

Bambi Poulan, Service Clerk Tampa, Florida

Statement of Major Accounting Policies

Description of Business

The company is principally in the retail drugstore business and its operations are within one reportable segment. Stores are located in 43 states and Puerto Rico. At August 31, 2001, there were 3,517 retail drugstores and three mail service facilities. Prescription sales were 57.5% of total sales for fiscal 2001 compared to 55.2% in 2000 and 52.4% in 1999.

Basis of Presentation

The consolidated statements include the accounts of the company and its subsidiaries. All significant intercompany transactions have been eliminated. The financial statements are prepared in accordance with generally accepted accounting principles and include amounts based on management's prudent judgments and estimates. Actual results may differ from these estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and all highly liquid investments with an original maturity of three months or less. The company's cash management policy provides for the bank disbursement accounts to be reimbursed on a daily basis. Checks issued but not presented to the banks for payment of $233 million and $211 million at August 31, 2001 and 2000, respectively, are included in cash and cash equivalents as reductions of other cash balances.

Financial Instruments

The company had approximately $53 million and $89 million of outstanding letters of credit at August 31, 2001 and 2000, respectively, which guaranteed foreign trade purchases. Additional outstanding letters of credit of $71 million and $62 million at August 31, 2001 and 2000, respectively, guaranteed payments of casualty claims. The casualty claim letters of credit are annually renewable and will remain in place until the casualty claims are paid in full. The company pays a nominal facility fee to the financing bank to keep this line of credit facility active. The company also had purchase commitments of approximately $162 million and $525 million at August 31, 2001 and 2000, respectively, related to the purchase of store locations. There were no investments in derivative financial instruments during fiscal 2001 and 2000.

Inventories

Inventories are valued on a lower of last-in, first-out (LIFO) cost or market basis. At August 31, 2001 and 2000, inventories would have been greater by $637.6 million and $574.8 million, respectively, if they had been valued on a lower of first-in, first-out (FIFO) cost or market basis. Cost of sales is primarily derived from an estimate based upon point-of-sale scanning information and adjusted based on periodic inventories.

Property and Equipment

Depreciation is provided on a straight-line basis over the estimated useful lives of owned assets. Leasehold improvements and leased properties under capital leases are amortized over the estimated physical life of the property or over the term of the lease, whichever is shorter. Estimated useful lives range from 12½ to 39 years for land improvements, buildings and building improvements and 5 to 12½ years for equipment. Major repairs, which extend the useful life of an asset, are capitalized in the property and equipment accounts. Routine maintenance and repairs are charged against earnings. The composite method of depreciation is used for equipment; therefore, gains and losses on retirement or other disposition of such assets are included in earnings only when an operating location is closed, completely remodeled or impaired resulting in the carrying amount not being recoverable. Impaired assets write-offs are measured by comparing the present value of the estimated future cash flows to the carrying value of the assets. The present value of future lease costs is charged against earnings when a commitment makes it probable that the location will close before the end of the lease term. Fully depreciated property and equipment are removed from the cost and related accumulated depreciation and amortization accounts.

Property and equipment consists of *(In Millions)*:

	2001	*2000*
Land and land improvements		
Owned stores	$1,109.2	$ 821.8
Distribution centers	38.7	33.3
Other locations	18.6	14.9
Buildings and building improvements		
Owned stores	1,156.6	870.4
Leased stores (leasehold improvements only)	411.1	354.4
Distribution centers	309.1	203.4
Other locations	70.6	61.4
Equipment		
Stores	1,440.3	1,266.8
Distribution centers	350.2	219.6
Other locations	462.7	452.8
Capitalized system development costs	117.4	99.8
Capital lease properties	18.8	21.1
	5,503.3	4,419.7
Less: accumulated depreciation and amortization	1,158.0	991.5
	$4,345.3	$3,428.2

The company capitalizes costs that primarily relate to the application development stage of significant internally developed software. These costs principally relate to Intercom Plus, a pharmacy computer and workflow system. These costs are amortized over a five-year period. Amortization of these costs was $20.8 million in 2001, $13.1 million in 2000 and $15.6 million in 1999. Unamortized costs as of August 31, 2001 and 2000, were $66.1 million and $65.2 million, respectively.

Income Taxes

The company provides for federal and state income taxes on items included in the Consolidated Statements of Earnings regardless of the period when such taxes are payable. Deferred taxes are recognized for temporary differences between financial and income tax reporting based on enacted tax laws and rates.

Insurance

The company obtains insurance coverage for catastrophic exposures as well as those risks required to be insured by law. It is the company's policy to retain a significant portion of certain losses related to worker's compensation, property losses, business interruptions relating from such losses and comprehensive general, pharmacist and vehicle liability. Provisions for these losses are recorded based upon the company's estimates for claims incurred. Such estimates use certain assumptions followed in the insurance industry.


Carol Cantrell, Customer
Dallas, Texas

Statement of Major Accounting Policies

(continued)

Pre-Opening Expenses

Non-capital expenditures incurred prior to the opening of a new or remodeled store are charged against earnings when they are incurred.

Advertising Costs

Advertising costs are expensed as incurred, and were $54.1 million in 2001, $76.7 million in 2000 and $58.7 million in 1999.

Notes to Consolidated Financial Statements

Interest Expense

The company capitalized $15.6 million, $4.0 million and $2.6 million of interest expense as part of significant construction projects during fiscal 2001, 2000 and 1999. Interest paid, net of amounts capitalized, was $3.4 million in 2001, $.2 million in 2000 and $.4 million in 1999.

Other Income

In February 2001 and July 2000, the company received partial payments of the brand name prescription drugs antitrust litigation settlement for pre-tax income of $22.1 million ($13.6 million after-tax or $.01 per share) and $33.5 million ($20.5 million after-tax or $.02 per share), respectively. The company was involved in the pharmacy class action against drug manufacturers, which resulted in a $700 million settlement for all recipients. The final payment was received in the first quarter of fiscal 2002 for pre-tax income of $5.5 million ($3.4 million after-tax).

Leases

Although some locations are owned, the company generally operates in leased premises. Original non-cancelable lease terms typically are 20 years and may contain escalation clauses, along with options that permit renewals for additional periods. The total amount of the minimum rent is expensed on a straight-line basis over the term of the lease. In addition to minimum fixed rentals, most leases provide for contingent rentals based upon sales.

Minimum rental commitments at August 31, 2001, under all leases having an initial or remaining non-cancelable term of more than one year are shown below *(In Millions)*:

Year	
2002	$ 782.7
2003	826.3
2004	817.0
2005	804.7
2006	785.4
Later	9,010.2
Total minimum lease payments	$13,026.3

The above minimum lease payments include minimum rental commitments related to capital leases amounting to $13.3 million at August 31, 2001. The present value of net minimum capital lease payments, due after 2002, is reflected in the accompanying Consolidated Balance Sheets as part of other non-current liabilities. Total minimum lease payments have not been reduced by minimum sublease rentals of approximately $42.6 million on leases due in the future under non-cancelable subleases.

Rental expense was as follows *(In Millions)*:

	2001	*2000*	*1999*
Minimum rentals	$730.1	$605.7	$482.0
Contingent rentals	26.2	31.4	34.8
Less: Sublease rental income	(10.4)	(7.6)	(5.4)
	$745.9	$629.5	$511.4

Income Taxes

The provision for income taxes consists of the following *(In Millions)*:

	2001	*2000*	*1999*
Current provision – Federal	$417.1	$400.9	$350.5
– State	73.1	64.5	62.1
	490.2	465.4	412.6
Deferred provision – Federal	47.1	17.7	(8.0)
– State	(.2)	3.3	(1.4)
	46.9	21.0	(9.4)
	$537.1	$486.4	$403.2

The components of the deferred provision were *(In Millions)*:

	2001	*2000*	*1999*
Accelerated depreciation	$ 49.7	$ 51.5	$ 9.7
Inventory	18.6	(2.3)	11.1
Insurance	(15.7)	(11.0)	(2.7)
Employee benefit plans	(11.1)	(17.7)	(12.2)
Accrued rent	2.2	(5.2)	(8.7)
Other	3.2	5.7	(6.6)
	$ 46.9	$ 21.0	$ (9.4)

The deferred tax assets and liabilities included in the Consolidated Balance Sheets consist of the following *(In Millions)*:

	2001	*2000*
Deferred tax assets –		
Employee benefit plans	$146.3	$135.4
Accrued rent	52.7	54.9
Insurance	68.3	52.6
Inventory	28.1	23.6
Other	39.0	38.9
	334.4	305.4
Deferred tax liabilities –		
Accelerated depreciation	341.7	292.0
Inventory	92.9	69.8
Other	16.1	13.0
	450.7	374.8
Net deferred tax liabilities	$116.3	$ 69.4

Shawn Horst, Store Manager
Cheyenne, Wyoming

Notes to Consolidated Financial Statements

(continued)

Income taxes paid were $432.1 million, $398.4 million and $377.3 million during the fiscal years ended August 31, 2001, 2000 and 1999, respectively. The difference between the statutory income tax rate and the effective tax rate is principally due to state income tax provisions.

Short-Term Borrowings

The company obtained funds through the placement of commercial paper, as follows *(Dollars in Millions)*:

	2001	*2000*	*1999*
Average outstanding during the year	**$304.9**	**$14.0**	**$ 9.6**
Largest month-end balance	**461.2** *(Nov)*	**98.0** *(Nov)*	**100.0** *(Nov)*
Weighted-average interest rate	**5.2%**	**5.9%**	**5.1%**

At August 31, 2001, the company had approximately $152 million of available bank lines of credit. The credit lines are renewable annually at various dates and provide for loans of varying maturities at the prime rate. There are no compensating balance arrangements.

Contingencies

The company is involved in various legal proceedings incidental to the normal course of business. Company management is of the opinion, based upon the advice of General Counsel, that although the outcome of such litigation cannot be forecast with certainty, the final disposition should not have a material adverse effect on the company's consolidated financial position or results of operations.

Capital Stock

The company's common stock is subject to a Rights Agreement under which each share has attached to it a Right to purchase one one-hundredth of a share of a new series of Preferred Stock, at a price of $37.50 per Right. In the event an entity acquires or attempts to acquire 15% of the then outstanding shares, each Right, except those of an acquiring entity, would entitle the holder to purchase a number of shares of common stock pursuant to a formula contained in the Agreement. These non-voting Rights will expire on August 21, 2006, but may be redeemed at a price of $.0025 per Right at any time prior to a public announcement that the above event has occurred.

As of August 31, 2001, 92,321,616 shares of common stock were reserved for future stock issuances under the company's various employee benefit plans. Preferred stock of 10,194,251 shares have been reserved for issuance upon the exercise of Preferred Share Purchase Rights.

Stock Compensation Plans

The Walgreen Co. Executive Stock Option Plan provides for the granting to key employees of options to purchase company common stock over a 10-year period, at a price not less than the fair market value on the date of the grant. Under this Plan, options may be granted until October 9, 2006, for an aggregate of 38,400,000 shares of common stock of the company. Compensation expense related to the plan was $1.4 million in fiscal 2001 and less than $1 million in fiscal 2000 and 1999. The options granted during fiscal 2001, 2000 and 1999 have a minimum three-year holding period.

The Walgreen Co. Stock Purchase/Option Plan (Share Walgreens) provides for the granting of options to purchase company common stock over a period of 10 years to eligible employees upon the purchase of company shares subject to certain restrictions. Under the terms of the Plan, the option price cannot be less than 85% of the fair market value at the date of grant. Compensation expense related to the Plan was $9.6 million in fiscal 2001 and less than $1 million in fiscal 2000 and 1999. Options may be granted under this Plan until September 30, 2002, for an aggregate of 40,000,000 shares of common stock of the company. This Plan was amended on July 11, 2001. Effective October 1, 2002, options may be granted under this Plan until September 30, 2012, for an aggregate of 42,000,000 shares of common stock of the company. The options granted during fiscal 2001, 2000 and 1999 have a two-year holding period.

On May 11, 2000, substantially all employees, in conjunction with opening the company's 3,000th store, were granted a stock option award to purchase from 75 to 500 shares, based on years of service. The stock option award, issued at fair market value on the date of the grant, represents a total of 14,859,275 shares of Walgreen Co. common stock. The options vest after three years and are exercisable up to 10 years after the grant date.

A summary of information relative to the company's stock option plans follows:

	Options Outstanding		*Options Exercisable*	
	Shares	*Weighted-Average Exercise Price*	*Shares*	*Weighted-Average Exercise Price*
August 31, 1998	**29,605,956**	**$ 6.59**		
Granted	**2,606,350**	**19.70**		
Exercised	**(3,644,250)**	**5.71**		
Canceled/Forfeited	**(88,818)**	**9.81**		
August 31, 1999	**28,479,238**	**$ 7.89**	**21,821,426**	**$5.91**
Granted	**17,040,383**	**28.43**		
Exercised	**(5,055,842)**	**5.59**		
Canceled/Forfeited	**(1,086,118)**	**27.39**		
August 31, 2000	**39,377,661**	**$16.55**	**19,267,211**	**$6.45**
Granted	**5,354,388**	**36.68**		
Exercised	**(5,532,895)**	**5.75**		
Canceled/Forfeited	**(2,943,030)**	**28.02**		
August 31, 2001	**36,256,124**	**$20.24**	**14,824,227**	**$7.40**

Vianney Bolaños,
Store Manager
Dallas, Texas

Notes to Consolidated Financial Statements
(continued)

The following table summarizes information concerning currently outstanding and exercisable options:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 08/31/01	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at 8/31/01	Weighted-Average Exercise Price
$ 4 to 14	14,685,847	3.76 yrs.	$ 7.26	14,672,859	$ 7.25
15 to 30	16,318,488	8.31	26.66	143,750	20.88
31 to 46	5,251,789	9.15	36.62	7,618	38.78
$ 4 to 46	36,256,124	6.58 yrs.	$20.24	14,824,227	$ 7.40

Under the Walgreen Co. 1982 Employees Stock Purchase Plan, eligible employees may purchase company stock at 90% of the fair market value at the date of purchase. Employees may purchase shares through cash purchases, loans or payroll deductions up to certain limits. The aggregate number of shares for which all participants have the right to purchase under this Plan is 64,000,000.

The Walgreen Co. Restricted Performance Share Plan provides for the granting of up to 32,000,000 shares of common stock to certain key employees, subject to restrictions as to continuous employment except in the case of death, normal retirement and total and permanent disability. Restrictions generally lapse over a four-year period from the date of grant. Compensation expense is recognized in the year of grant. Compensation expense related to the Plan was $3.6 million in fiscal 2001, $5.1 million in fiscal 2000 and $3.7 million in fiscal 1999. The number of shares granted was 61,136 in 2001, 84,746 in 2000 and 95,038 in 1999.

The company applies Accounting Principles Board (APB) Opinion No. 25 and related interpretations in accounting for its plans. Accordingly, no compensation expense has been recognized based on the fair value of its grants under these plans. Had compensation costs been determined consistent with the method of FASB Statement No. 123 for options granted in fiscal 2001, 2000 and 1999, pro forma net earnings and net earnings per common share would have been as follows *(In Millions, except per share data)*:

	2001	2000	1999
Net earnings			
As reported	$885.6	$776.9	$624.1
Pro forma	833.3	754.3	605.3
Net earnings per common share – Basic			
As reported	.87	.77	.62
Pro forma	.82	.75	.61
Net earnings per common share – Diluted			
As reported	.86	.76	.62
Pro forma	.81	.74	.60

The weighted-average fair value and exercise price of options granted for fiscal 2001, 2000 and 1999 were as follows:

	2001	2000	1999
Granted at market price –			
Weighted-average fair value	$14.28	$12.17	$ 6.99
Weighted-average exercise price	32.88	28.44	19.61
Granted below market price –			
Weighted-average fair value	20.78	10.56	9.45
Weighted-average exercise price	38.78	24.12	20.89

The fair value of each option grant used in the pro forma net earnings and net earnings per share was determined using the Black-Scholes option pricing model with weighted-average assumptions used for grants in fiscal 2001, 2000 and 1999:

	2001	2000	1999
Risk-free interest rate	6.16%	6.64%	5.11%
Average life of option (years)	7	7	7
Volatility	25.95%	25.86%	21.78%
Dividend yield	.16%	.27%	.32%

Retirement Benefits

The principal retirement plan for employees is the Walgreen Profit-Sharing Retirement Trust to which both the company and the employees contribute. The company's contribution, which is determined annually at the discretion of the Board of Directors, has historically related to pre-tax income. The profit-sharing provision was $126.6 million in 2001, $112.4 million in 2000 and $91.4 million in 1999.

The company provides certain health and life insurance benefits for retired employees who meet eligibility requirements, including age and years of service. The costs of these benefits are accrued over the period earned. In fiscal 2001 several changes were made prospectively to retiree medical and prescription drug coverage. Employees hired after December 31, 2001, will not be eligible for the Walgreen Medical Plan for Retirees. In addition, for retirements occurring on or after January 1, 2017, retirees will contribute more toward the cost of their prescription coverage. At August 31, 2001, the unrecognized actuarial loss was $27.9 million, compared to a $5.1 million loss at August 31, 2000. The actuarial loss is amortized over the future service period of employees, which approximates 20 years. The company's postretirement health and life benefit plans currently are not funded.

Components of net periodic benefit costs *(In Millions)*:

	2001	2000	1999
Service cost	$ 4.8	$ 4.7	$ 5.2
Interest cost	8.7	7.7	7.3
Amortization of actuarial loss	.3	–	.4
Total postretirement healthcare benefits costs	$13.8	$12.4	$12.9

SolMarie Comacho, Bookkeeper, with daughter Alondra
San German, Puerto Rico

Notes to Consolidated Financial Statements

(continued)

Change in benefit obligation *(In Millions)*:

	2001	2000
Benefit obligation at September 1	$118.6	$104.6
Service cost	4.8	4.7
Interest cost	8.7	7.7
Amendments	(7.1)	–
Actuarial loss (gain)	23.1	5.7
Benefit payments	(6.3)	(4.9)
Participants contributions	.9	.8
Benefit obligation at August 31	$142.7	$118.6

The discount rate assumptions used to compute the postretirement benefit obligation at year-end were 7.5% for 2001 and 2000.

Future benefit costs were estimated assuming medical costs would increase at a 6.5% annual rate decreasing to 5% over the next 4 years and then remaining at a 5% annual growth rate thereafter. A one percentage point change in the assumed medical cost trend rate would have the following effects *(In Millions)*:

	1% Increase	1% Decrease
Effect on service and interest cost	$ 4.0	$ (3.0)
Effect on postretirement obligation	28.2	(21.6)

Supplementary Financial Information

Included in the Consolidated Balance Sheets captions are the following assets and liabilities *(In Millions)*:

	2001	2000
Accounts receivable –		
Accounts receivable	$819.2	$631.4
Allowances for doubtful accounts	(20.9)	(16.9)
	$798.3	$614.5
Accrued expenses and other liabilities –		
Accrued salaries	$272.7	$266.4
Taxes other than income taxes	155.5	125.4
Profit sharing	122.1	110.7
Other	387.2	345.2
	$937.5	$847.7

Summary of Quarterly Results *(Unaudited)*

(Dollars in Millions, except per share data)

		Quarter Ended				Fiscal
		November	February	May	August	Year
Fiscal 2001	Net sales	$5,614.2	$6,429.0	$6,296.2	$6,283.6	$24,623.0
	Gross profit	1,488.1	1,770.8	1,651.6	1,663.6	6,574.1
	Net earnings	158.4	296.9	213.4	216.9	885.6
	Per Common Share – Basic	$ .16	$ .29	$ .21	$ .21	$ .87
	– Diluted	.15	.29	.21	.21	.86
Fiscal 2000	Net sales	$4,823.2	$5,608.8	$5,394.1	$5,380.8	$21,206.9
	Gross profit	1,272.2	1,543.5	1,451.0	1,474.3	5,741.0
	Net earnings	127.8	238.9	193.6	216.6	776.9
	Per Common Share – Basic	$ .13	$ .23	$ .20	$ .21	$ .77
	– Diluted	.13	.23	.19	.21	.76

Comments on Quarterly Results: In further explanation of and supplemental to the quarterly results, the 2001 fourth quarter LIFO adjustment was a charge of $2.8 million compared to a 2000 credit of $8.7 million. If the 2001 interim results were adjusted to reflect the actual inventory inflation rates and inventory levels as computed at August 31, 2001, earnings per share would have been higher in the second quarter by $.01 and lower in the fourth quarter by $.01. Similar adjustments in 2000 would have increased earnings per share in the first quarter by $.01 and decreased the fourth quarter by $.01.

The quarter ended February 28, 2001, includes the pre-tax income of $22.1 million ($13.6 million after-tax or $.01 per share) from the partial payment of the brand name prescription drugs litigation settlement. The quarter ended August 31, 2000, includes the pre-tax income of $33.5 million ($20.5 million after-tax or $.02 per share) from the initial payment.

Common Stock Prices

Below are the New York Stock Exchange high and low for each quarter of fiscal 2001 and 2000.

		Quarter Ended				Fiscal
		November	February	May	August	Year
Fiscal 2001	High	$45.63	$44.32	$45.27	$41.85	$45.63
	Low	33.44	36.88	39.12	31.43	31.43
Fiscal 2000	High	$29.94	$32.75	$29.19	$35.25	$35.25
	Low	23.56	25.81	22.75	27.56	22.75

Jerry Lizalek, Photo Technician
Scottsdale, Arizona

Report of Independent Public Accountants

To the Board of Directors and Shareholders of Walgreen Co.:
We have audited the accompanying consolidated balance sheets of Walgreen Co. (an Illinois corporation) and Subsidiaries as of August 31, 2001 and 2000, and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the three years in the period ended August 31, 2001. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Walgreen Co. and Subsidiaries as of August 31, 2001 and 2000 and the results of their operations and their cash flows for each of the three years in the period ended August 31, 2001 in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Chicago, Illinois,
September 28, 2001

Management's Report

The primary responsibility for the integrity and objectivity of the consolidated financial statements and related financial data rests with the management of Walgreen Co. The financial statements were prepared in conformity with generally accepted accounting principles appropriate in the circumstances and included amounts that were based on management's most prudent judgments and estimates relating to matters not concluded by fiscal year-end. Management believes that all material uncertainties have been either appropriately accounted for or disclosed. All other financial information included in this annual report is consistent with the financial statements.

The firm of Arthur Andersen LLP, independent public accountants, was engaged to render a professional opinion on Walgreen Co.'s consolidated financial statements. Their report contains an opinion based on their audit, which was made in accordance with generally accepted auditing standards and procedures, which they believed were sufficient to provide reasonable assurance that the consolidated financial statements, considered in their entirety, are not misleading and do not contain material errors.

Four outside members of the Board of Directors constitute the company's Audit Committee, which meets at least quarterly and is responsible for reviewing and monitoring the company's financial and accounting practices. Arthur Andersen LLP and the company's General Auditor meet alone with the Audit Committee, which also meets with the company's management to discuss financial matters, auditing and internal accounting controls.

The company's systems are designed to provide an effective system of internal accounting controls to obtain reasonable assurance at reasonable cost that assets are safeguarded from material loss or unauthorized use and transactions are executed in accordance with management's authorization and properly recorded. To this end, management maintains an internal control environment which is shaped by established operating policies and procedures, an appropriate division of responsibility at all organizational levels, and a corporate ethics policy which is monitored annually. The company also has an Internal Control Evaluation Committee, composed primarily of senior management from the Accounting and Auditing Departments, which oversees the evaluation of internal controls on a company-wide basis. Management believes it has appropriately responded to the internal auditors' and independent public accountants' recommendations concerning the company's internal control system.

L. Daniel Jorndt
Chairman of the Board
and Chief Executive Officer

William M. Rudolphsen
Controller
and Chief Accounting Officer

Roger L. Polark
Senior Vice President
and Chief Financial Officer

Board of Directors

Directors

L. Daniel Jorndt*
Chairman and
Chief Executive Officer
Elected 1990

David W. Bernauer*
President and
Chief Operating Officer
Elected 1999

William C. Foote
Chairman of the Board,
Chief Executive Officer
and President
USG Corporation
Elected 1997

James J. Howard
Chairman Emeritus
Xcel Energy, Inc.
Elected 1986

Alan G. McNally
Chairman and
Chief Executive Officer
Harris Bankcorp Inc.
Elected 1999

Cordell Reed
Former Senior Vice President
Commonwealth Edison Co.
Elected 1994

David Y. Schwartz
Former Partner
Arthur Andersen LLP
Elected 2000

John B. Schwemm
Former Chairman and
Chief Executive Officer
R.R. Donnelley & Sons Co.
Elected 1985

Marilou M. von Ferstel
Former Executive Vice President
and General Manager
Ogilvy Adams & Rinehart
Elected 1987

Charles R. Walgreen III
Chairman Emeritus
Elected 1963

* *David W. Bernauer will become Chief Executive Officer in January 2002. L. Daniel Jorndt will retain the position of Chairman.*

Committees

Executive Committee
L. Daniel Jorndt,
Chairman
David W. Bernauer
Cordell Reed
John B. Schwemm

Audit Committee
John B. Schwemm,
Chairman
William C. Foote
David Y. Schwartz
Marilou M. von Ferstel

Compensation Committee
Cordell Reed,
Chairman
James J. Howard
John B. Schwemm

Finance Committee
David Y. Schwartz,
Chairman
David W. Bernauer
L. Daniel Jorndt
Alan G. McNally
Cordell Reed
Charles R. Walgreen III

Nominating and Governance Committee
William C. Foote,
Chairman
James J. Howard
John B. Schwemm
Marilou M. von Ferstel

Officers

As of October 31, 2001

Corporate

Chairman
L. Daniel Jorndt*
Chief Executive Officer

President
David W. Bernauer*
Chief Operating Officer

Executive Vice Presidents
Jerome B. Karlin
Store Operations
Jeffrey A. Rein
Marketing

Senior Vice Presidents
R. Bruce Bryant
Western Store Operations
W. Lynn Earnest
Central Store Operations
George C. Eilers
Eastern Store Operations
J. Randolph Lewis
Distribution & Logistics
Julian A. Oettinger
General Counsel and
Corporate Secretary
Roger L. Polark
Chief Financial Officer
William A. Shiel
Facilities Development

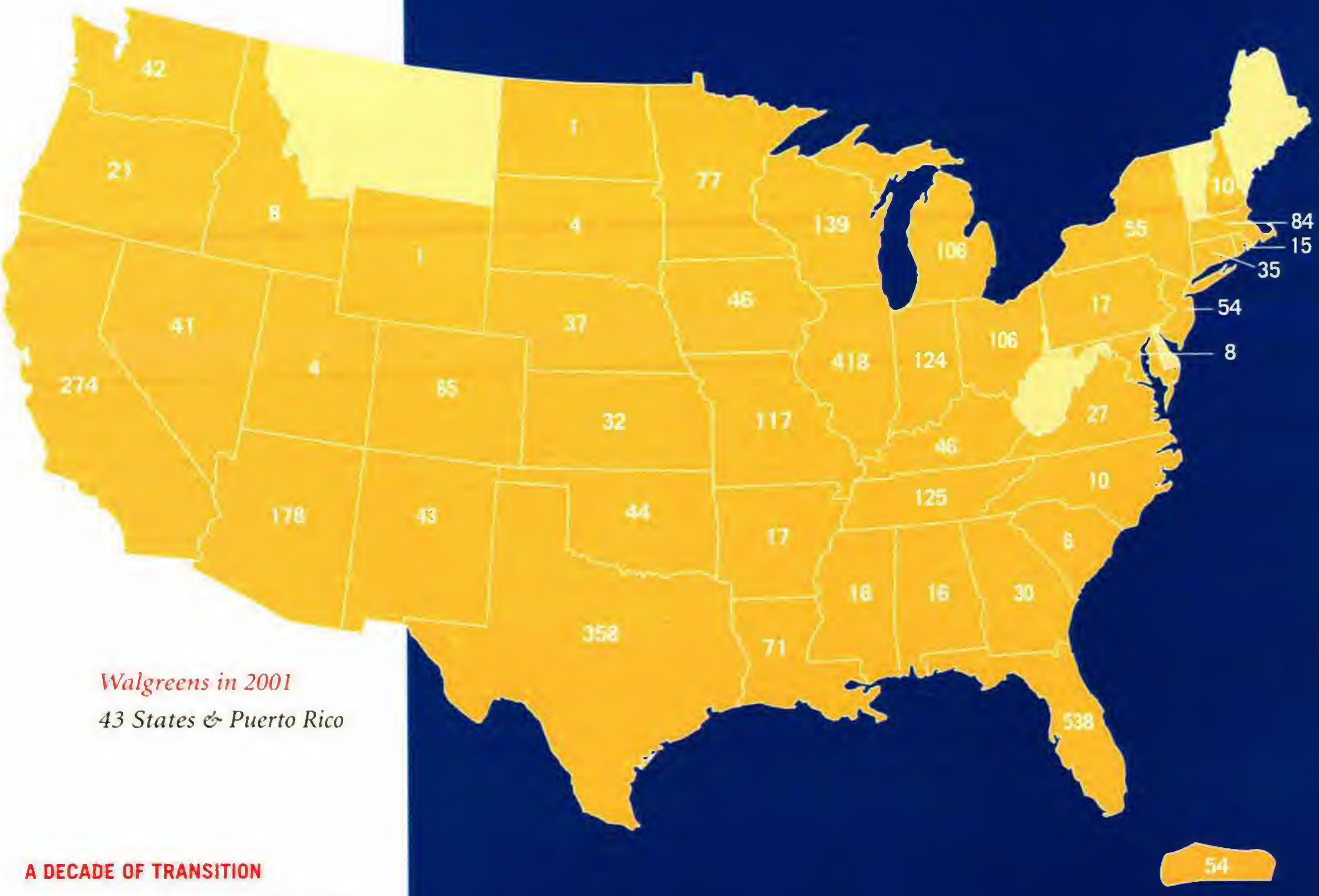
Vice Presidents
John W. Gleeson
Corporate Strategy
Dana I. Green
Human Resources
Robert H. Halaska
President
Walgreens Health Initiatives
Dennis R. O'Dell
Health Services
Robert E. Sgarlata
Retail Marketing
Trent E. Taylor
Chief Information Officer
Mark A. Wagner
Treasurer
Gregory D. Wasson
Executive Vice President
Walgreens Health Initiatives

Operational and Divisional

Store Operations Vice Presidents
James F. Cnota
Kermit R. Crawford
David L. Gloudemans
Frank C. Grilli
William M. Handal
Patrick E. Hanifen
Don R. Holman
Robert M. Kral
Barry L. Markl
Richard Robinson
Michael D. Tovian
Bill J. Vernon
Kevin P. Walgreen
Christine D. Whelan
Edward E. Williams
Bruce C. Zarkowsky

Divisional Vice Presidents
Thomas Bergseth
Facilities Planning and Design
Thomas J. Connolly
Real Estate
Laurie L. Meyer
Corporate Communications
Allan M. Resnick
Law
Robert E. Rogan
Distribution Centers
Jerry A. Rubin
Real Estate
William M. Rudolphsen
Controller
James M. Schultz
Performance Development
Craig M. Sinclair
Advertising
Terry R. Watkins
Distribution Centers
Kenneth R. Weigand
Employee Relations
Chester G. Young
General Auditor
Robert G. Zimmerman
Vice President – Administration
Walgreens Health Initiatives

On 3,520 corners



Walgreens in 2001

43 States & Puerto Rico

A DECADE OF TRANSITION

	2001	*1991*
Total Stores	3,520	1,646
Freestanding Stores	2,535	181
24-Hour Stores	780	72
1-Hour Photo Stores	3,394	2
Drive-Thru Pharmacies	2,424	4

WE GO WHERE THE PEOPLE GO

Fastest Growing States	*Stores in 2005*	*Stores Today*
California	492	274
Texas	448	358
Florida	716	538
Georgia	112	30
Arizona	223	178

STATE	2001	2000
Alabama	16	8
Arizona	178	154
Arkansas	17	14
California	274	234
Colorado	65	59
Connecticut	35	31
Florida	538	494
Georgia	30	9
Idaho	8	6
Illinois	418	398
Indiana	124	116
Iowa	46	40
Kansas	32	27
Kentucky	46	45
Louisiana	71	69
Maryland	8	3
Massachusetts	84	80
Michigan	106	88
Minnesota	77	72
Mississippi	16	14
Missouri	117	112
Nebraska	37	35
Nevada	41	32
New Hampshire	10	10
New Jersey	54	46
New Mexico	43	42
New York	55	48
North Carolina	10	8
North Dakota	1	1
Ohio	106	93
Oklahoma	44	36
Oregon	21	15
Pennsylvania	17	15
Rhode Island	15	15
South Carolina	6	3
South Dakota	4	4
Tennessee	125	111
Texas	358	333
Utah	4	1
Virginia	27	24
Washington	42	33
Wisconsin	139	136
Wyoming	1	1
Puerto Rico	54	50
Total	3,520	3,165

All information on this page is provided as of fiscal year-end.

Drugstores and Sales Overview

Fiscal Year		*2001*	*2000*	*1999*	*1998*	*1997*
Drugstores	Openings					
	New Stores	**473**	461	386	303	247
	Acquisitions	**1**	1	–	1	4
	Remodelings	**19**	30	33	47	46
	Closings	**119**	118	114	113	86
	Year-end: Units *(1)*	**3,520**	3,165	2,821	2,549	2,358
	Year-end: Sales Area *(2)*	**38,226**	33,684	29,230	26,024	23,935
Product Class Sales	Prescription Drugs	**58%**	55%	52%	50%	47%
	Nonprescription Drugs *(3)*	**12**	11	12	12	13
	Cosmetics, Toiletries *(3)*	**7**	8	8	8	8
	General Merchandise *(3)*	**23**	26	28	30	32

(1) Includes 49 pharmacy-only units and three mail service facilities at August 31, 2001.
(2) In thousands of square feet.
(3) Estimates based, in part, on store scanning information.

Shareholder Information

Corporate Headquarters
Walgreen Co.
200 Wilmot Road
Deerfield, Illinois 60015
(847) 940-2500

Internet Address
Major press releases and other information are available on Walgreens website: www.walgreens.com

Stock Market Listings
New York Stock Exchange
Chicago Stock Exchange
Symbol: WAG

Investor Contacts
Rick J. Hans
Mark A. Wagner

Annual Shareholders' Meeting
You are cordially invited to attend the meeting to be held Wednesday, January 9, 2002, 2 p.m. CST, in the Grand Ballroom, Navy Pier, Chicago, Illinois.

Formal notice of the meeting, with proxy card and proxy statement, was mailed to all shareholders of record as of November 16, 2001.

Shareholder Communications
Please address inquiries or comments to:

Shareholder Relations
Walgreen Co. – Mail Stop #2261
200 Wilmot Road
Deerfield, Illinois 60015
(847) 914-2972

The company's annual report to the Securities and Exchange Commission, Form 10-K, may be obtained by any shareholder, free of charge, by visiting www.walgreens.com or upon written request.

Electronic Reports
For instructions on how to receive proxy statements, annual reports to shareholders and related materials electronically, refer to the proxy card that was mailed to shareholders with this annual report. After January 9, 2002, call (847) 914-2636 to request electronic delivery.

Quarterly Reports
Quarterly earnings release dates for 2002 are January 3, March 25, June 24 and September 30. Results are released to the press and posted on Walgreens website. Quarterly reports are also mailed to shareholders on request. You may request reports at any time by contacting Shareholder Relations at (847) 914-2972.

Dividend Payment Dates
Walgreens pays dividends in March, June, September and December. Checks are customarily mailed on the 12th of each of these months.

Transfer Agent and Registrar
For assistance on matters such as lost shares or name changes on shares, please contact:

Computershare Investor Services
2 North LaSalle Street
Chicago, Illinois 60602
Website: www.computershare.com
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